

Message Text

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72-L

ACTION ARA-20

INFO OCT-01 ISO-00 SS-15 EB-11 COME-00 TRSE-00 OMB-01 L-03

OPIC-12 SPC-03 NSC-10 CIAE-00 INR-10 NSAE-00 RSC-01

PRS-01 DRC-01 /089 W

----- 006291

P 032200Z OCT 73

FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 7288

C O N F I D E N T I A L SECTION 1 OF 2 LIMA 7327

EO 11652: GDS

TAGS: BDIS, EMIN, EIND, PE

SUBJ: CERRO DE PASCO

REF: LIMA 7021 AND 7260

1. SUMMARY: AFTER ASSESSMENT, CERRO NOW STATES IT HAS ABOUT TEN-DAYS -- TWO WEEKS CASH SUPPLY, AND NOTES CERRO NEW YORK NOW WITHHOLDING ABOUT \$20 MILLION. CERRO LIMA SEES POTENTIALLY SERIOUS LEGAL AND LABOR RAMIFICATIONS FROM DECISION WITHHOLD PAYMENT. ONE BRIGHT SPOT IS FACT THAT CERRO NEW YORK HAS TRANSMITTED LETTERS OF CREDIT FOR SHIPS AT CALLAO WHICH PRESENTLY LOADING AND IT APPEARS GOP AND CERRO MAY HAVE TACITLY AGREED TO OPERATE ON CASH AND CARRY BASIS. MINEROPERU OPERATING NORMALLY AND WELL-PLACED SOURCE STATES IT HAS NO INSTRUCTIONS TO PREPARE TO OPERATE CERRO. END SUMMARY.

2. CONVERSATIONS WITH SENIOR CERRO DE PASCO AND MINEROPERU OFFICIALS HAVE ELICITED FOLLOWING ADDITIONAL INFORMATION:

A. CASH POSITION: LLOSA HAS REASSESSED CERRO CASH POSITION, WHICH APPEARS SOMEWHAT LESS STRINGENT THAN HE INDICATED ON OCTOBER 1 (LIMA 2760). TOTAL CASH IN CURRENT AND TIME DEPOSITS IN BANKS OTHER THAN BANCO DEL
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CREDITO, LESS ACCOUNTS DUE, TOTALS 179.4 MILLION SOLES.

TWO LETTERS OF CREDIT TOTAL AN ADDITIONAL 185.3 MILLION SOLES FOR TOTAL OF 364.7 MILLION. THIS AMOUNT SUFFICIENT RUN COMPANY AND MEET PAYROLLS FOR NEXT TEN DAYS OR TWO WEEKS UNLESS SUPERINTENDENT OF BANKS TAKES ACTION TO FREEZE ALL CERRO ACCOUNTS, A POSSIBILITY WHICH LLOSA DOES NOT DISCOUNT.

B. CERRO NEW YORK CASH IN PIPELINE: LLOSA SAID THAT CERRO SALES NEW YORK OWED GOP THROUGH BANCO DEL CREDITO BETWEEN \$6 AND \$7.5 MILLION, INCLUDING THE \$3.5 MILLION TRANSFER ON WHICH PAYMENT HAD BEEN STOPPED. AN ADDITIONAL \$12.9 MILLION IS OWED DIRECTLY TO MINERO-PERU BY CERRO SALES. TOTAL CASH WHICH CERRO NEW YORK WITHHOLDING THUS ABOUT \$20 MILLION. LLOSA ADMITTED THAT IT DIFFICULT TO SEE WHOLE PICTURE FROM WHERE HE SAT IN LIMA, AND THAT AMOUNT MIGHT WELL BE GREATER, ALTHOUGH HE THOUGHT THIS UNLIKELY.

C. CONSEQUENCES OF WITHHOLDING REMITTANCES: LLOSA SAID THAT PENALTY FOR FAILURE TO MAKE REMITTANCES WHEN DUE WAS 25 PERCENT OF AMOUNT FOR FIRST OFFENSE AND 50 PERCENT FOR SECOND OFFENSE. (HE IMPLIED THAT THIS PENALTY MIGHT NOT BE ASSESSED IF REMITTANCES WERE TO BE MADE SOON.) IN MEAN-TIME, BANCO DEL CREDITO WAS THEORETICALLY LIABLE TO BANCO CENTRAL FOR AMOUNTS OWED TO GOP THROUGH IT. LLOSA HIMSELF IS ALSO LEGALLY LIABLE, SINCE UNDER PERUVIAN LAW ULTIMATE RESPONSIBILITY RESTS WITH EXPORTER. HE AND OTHER SENIOR CERRO DE PASCO EXECUTIVES THUS THEORETICALLY FACE JAIL SENTENCES. (PROSEPCT DID NOT APPEAR TO CONCERN HIM GREATLY.)

D. PROSEPCTIVE DEVELOPMENTS: LLOSA CONTINUES TO CONTEMPLATE COURSE OF ACTION OUTLINED PARAGRAPH 4 LIMA 7260. IF CERRO NEW YORK REMAINS ADAMENT AND IF GOP UN-ABLE OR UNWILLING TO BE FLEXIBLE, CERRO DE PASCO WILL EVENTUALLY BE PLACED IN TOO TAIGHT A CASH POSITION TO CONTINUE OPERATIONS. STAGE WILL THEN BE SET, HE SAID, FOR GOP TO APPOINT "INTERVENTOR" OR TO EXPROPRIATE. LLOSA ADDED THAT ALLEN, WHO DIRECTS CERRO OPERATIONS AT LA OROYA, DOES NOT DISCOUNT POSSIBILITY OF WORKER VIO-CONFIDENTIAL

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LENCE SHOULD CERRO BE UNABLE TO MEET PAYROLL.

3. LLOSA ALSO REVIEWED FOR RECORD SEQUENCE OF EVENTS LEADING TO THIS IMPASSE. AS REPORTED LIMA 7021, CERRO WAS INFORMED ON OR ABOUT SEPTEMBER 19 OF REQUIREMENT OF IRREVOCABLE LETTER OF CREDIT BEFORE GOP WOULD ISSUE LICENSE FOR WHICH CERRO HAD APPLIED IN NORMAL FASHION SEVERAL DAYS BEFORE. GOP THEN APPARENTLY RELENTED AND

TOLD CERRO THAT, IN VIEW SUDDEN IMPOSITION OF REQUIREMENT, LICENSE WOULD BE ISSUED ON PAYMENT OF \$3.5 MILLION OWED FOR EARLIER SHIPMENT. CERRO NEW YORK THEN ADVISED FNCB TO TRANSFER FUNDS TO CHEMICAL CORN EXCHANGE BANK WHICH IN TURN WIRED BANCO DEL CREDITO THAT FUNDS WERE ON HAND. ON BASIS THIS ACTION, CERRO DE PASCO AGAIN APPROACHED GOP FOR EXPORT LICENSE, ONLY TO BE TOLD THAT NO EXCEPTIONS TO RULE WOULD, AFTER ALL, BE MADE, AND THAT IRREVOCABLE LETTER OF CREDIT WOULD STILL BE REQUIRED. THIS WAS PROVERBIAL LAST STRAW FOR CERRO NEW YORK, WHICH STOPPED PAYMENT ON \$3.5 MILLION TRANSFER ON SEPTEMBER 21, FOLLOWED BY BLAST OF SEPTEMBER 24. LLOSA SAID THAT MAJOR CONTRIBUTING FACTOR HAD UNDOUBTEDLY BEEN UNSATISFACTORY MEETING BETWEEN HIGGS AND MIRO QUESADA ON

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P 032200Z OCT 73

FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 7289

C O N F I D E N T I A L SECTION 2 OF 2 LIMA 7327

SEPTEMBER 13 (LIMA 6812) AND SUBSEQUENT ANALYSIS OF GOP'S SIX POINTS, WHICH SHOWED THAT, BY GOP RECKONING, RATHER THAN GOP PAYING ANYTHING FOR CERRO ASSETS, CERRO COULD WIND UP OWING GOP AS MUCH AS 1.5 BILLION SOLES.

4. WE HAVE SINCE BEEN INFORMED TODAY BY DOWD (VICE PRESIDENT SALES AND LOGISTICS) OF CERRO THAT LETTERS OF CREDIT HAVE NOW BEEN ISSUED AND THAT TWO SHIPS WHICH HAD BEEN HELD IN CALLAO AS RESULT OF FOREGOING PROBLEM BEGAN LOADING THIS MORNING. DOWD ALSO TOLD EMBASSY OFFICER THAT, SHORTLY BEFORE BLOWUP, MINISTER OF MINES FERNANDEZ MALDONADO HAD APPROVED CONVERTIBILITY OF

APPROXIMATELY \$1.5 MILLION FOR CERRO FOR IMPORT OF SPARE PARTS, CHEMICAL REAGENTS AND OTHER ESSENTIALS. CERRO NEW YORK IS NOW MAKING SUCH SHIPMENTS AGAINST IRREVOCABLE LETTERS OF CREDIT FROM PERU.

5. DOWD ALSO OF PERSONAL OPINION THAT GOP NOW REALIZES IT NOT ABLE OPERATE LOGISTICS AND SALES ARM OF CERRO AND WILL MOVE SLOWLY IN MAKING DECISION ABOUT TAKE-OVER. SIMILAR VIEW EXPRESSED TO EMBOFFS BY HEAD OF COMMERCIAL SALES OF MINEROPERU WHO CONFIRMED THAT LETTERS OF CREDIT FROM NEW YORK HAVE BEEN RECEIVED. ALTHOUGH NOT PRIVY TO DECISION-MAKING LEVELS OF GOP, MINEROPERU OFFICIAL IS FAIRLY CERTAIN THAT GOP DOES NOT PLAN TO TAKE OVER CERRO NOW. HE SAID MINEROPERU OPERATING NORMALLY AND HAS CONFIDENTIAL

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RECEIVED NO INSTRUCTIONS TO PREPARE FOR OPERATION OF CERRO WHICH, HE NOTED, MINEROPERU COULD NOT DO WITHOUT SUBSTANTIAL EXPATRIATE STAFF REMAINING ON TO WORK FOR STATE.

6. COMMENT: WHILE PROBLEM OF REFUSAL BY CERRO NEW YORK TO REMIT AMOUNTS DUE GOP PERSISTS AND OBVIOUSLY REMAINS SERIOUS, WE ARE ENCOURAGED BY WHAT APPEARS TO BE TACIT AGREEMENT BY CERRO NEW YORK AND GOP TO PERMIT OPERATIONS TO CONTINUE ON A CASH AND CARRY BASIS. WE AE ALSO ENCOURAGED TO HOPE THAT, ON THIS BASIS, CERRO DE PASCO MAY BE ABLE TO POSTPONE CASH SQUEEZE.
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